

**REPORT OF THE AUDIT OF THE  
MCLEAN COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2004**



**CRIT LUALLEN  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MCLEAN COUNTY SHERIFF**

**For The Year Ended**  
**December 31, 2004**

The Auditor of Public Accounts has completed the McLean County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees decreased by \$13,939 from the prior year, resulting in excess fees of \$11,272 as of December 31, 2004. Revenues increased by \$10,646 from the prior year and expenditures increased by \$24,585.

**Report Comments:**

- The McLean County Sheriff Should Not Make Private Purchases Through His Office
- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT .....	5
COMMENTS AND RECOMMENDATIONS .....	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	13





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry B. Whitaker, McLean County Judge/Executive  
Honorable Frank Cox, McLean County Sheriff  
Members of the McLean County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of McLean County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 12, 2005 on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Larry B. Whitaker, McLean County Judge/Executive  
Honorable Frank Cox, McLean County Sheriff  
Members of the McLean County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The McLean County Sheriff Should Not Make Private Purchases Through His Office
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of McLean County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
July 12, 2005



MCLEAN COUNTY  
FRANK COX, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State - Kentucky Law Enforcement Foundation Program Fund		\$	20,000
State Fees For Services:			
Finance and Administration Cabinet	\$	53,869	
Sheriff's Security Service		<u>8,031</u>	61,900
Circuit Court Clerk - Arrest Fees			1,610
Fiscal Court			300
County Clerk - Delinquent Taxes			690
Commission On Taxes Collected			97,168
Fees Collected For Services:			
Auto Inspections	\$	4,139	
Serving Papers		10,380	
Carrying Concealed Deadly Weapons Permits		<u>1,560</u>	16,079
Other:			
Taxes -			
Advertising Fees	\$	812	
Add-On Penalty Fees		13,540	
Sheriff's Collection Fees		2,351	
Miscellaneous		<u>5,913</u>	22,616
Interest Earned			58
Borrowed Money:			
State Advancement			<u>52,348</u>
Total Revenues		\$	272,769

The accompanying notes are an integral part of this financial statement.

MCLEAN COUNTY  
FRANK COX, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS  
For The Year Ended December 31, 2004  
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 43,989

Kentucky Law Enforcement

Foundation Program Fund 20,000

Contracted Services-

Advertising 1,799

Summons 215

Materials and Supplies-

Law Enforcement 9,432

Uniforms 5,371

Office Materials and Supplies 2,810

Other Charges-

Court Security 47,138

Phone 3,906

Postage 3,300

Computer Supplies 3,149

Fiscal Court Summons Fees 3,090

Carrying Concealed Deadly Weapons Permits 760

Dues 350

Conventions and Travel 300

Miscellaneous 713

Capital Outlay-

Office Equipment 4,060

Debt Service:

State Advancement 52,348

Total Expenditures

\$ 202,730

Net Revenues

\$ 70,039

Less: Statutory Maximum

\$ 57,220

Training Incentive Benefit

1,547

58,767

Excess Fees Due County for 2004

\$ 11,272

Payment to Fiscal Court - February 8, 2005

11,272

Balance Due Fiscal Court at Completion of Audit

\$ 0

The accompanying notes are an integral part of this financial statement.

MCLEAN COUNTY  
FRANK COX, COUNTY SHERIFF  
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MCLEAN COUNTY  
FRANK COX, COUNTY SHERIFF  
NOTES TO FINANCIAL STATEMENT  
December 31, 2004  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name.

Note 4. Drug Fund

The Sheriff maintained a drug fund for drug related receipts and expenditures. The balance of the fund as of January 1, 2004 was \$494. During the calendar year receipts of the drug fund were \$15,802 and disbursements were \$6,368 resulting in a balance of \$9,928 as of December 31, 2004.

## COMMENTS AND RECOMMENDATIONS



MCLEAN COUNTY  
FRANK COX, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The McLean County Sheriff Should Not Make Private Purchases Through His Office

The McLean County Sheriff was reimbursed \$3,279 by MPH Industries, Inc., a subsidiary of MPD, for a purchase the Sheriff made from Mobile-Vision. The purchase was for a System 7 car video camera system for a police vehicle. The invoice to the Sheriff from Mobile Vision and the reimbursement check to the Sheriff from MPH Industries, Inc. were both dated July 1, 2004. A check from the Sheriff's fee account for \$3,279 was sent to Mobile Vision on July 28, 2004 to pay for the video system.

The video camera system purchased by the Sheriff from Mobile Vision was never used or intended to be used by the Sheriff's office and was resold to MPH Industries, Inc., whose parent company, MPD, also manufactures video camera systems for police vehicles. The Sheriff gave the Mobile Vision system to a salesman representing MPD. The MPD salesman explained that the purchase was made through the Sheriff's office so that MPD could obtain a "fair price," and that anyone could purchase the system. He explained that MPD's engineers wanted to evaluate Mobile Vision's system.

The Sheriff allowed this transaction to be processed through his office and provided a benefit to MPH Industries, Inc. Mobile-Vision stated, "The Sheriff's department can do whatever they want with the System 7. Mobile-Vision does not sell to their competitors." The Sheriff did not pay sales tax on the purchase, and MPH Industries, Inc., did not reimburse the Sheriff for sales tax.

Purchases made by the Sheriff's office are sales tax-exempt. There was no sales tax charged on the invoice. KRS 139.720 does not allow a purchaser (the Sheriff's office) to resell property to be used for some other purpose that would not have qualified for tax-exempt status. MPH Industries, Inc. would not qualify for tax-exempt status.

KRS 522.020 states, "A public servant is guilty of official misconduct in the first degree when, with intent to obtain or confer a benefit or to injure another person or to deprive another person of a benefit, he knowingly commits an act relating to his office, which constitutes an unauthorized exercise of his official functions." KRS 522.010 states that, "Official misconduct in the second degree eliminates the requirement of intent to obtain or confer a benefit or to cause harm, and merely requires knowing violations."

We recommend that the Sheriff refrain from entering into these types of transactions.

*Sheriff's Response:*

*I, Frank Cox, Sheriff of McLean County, did not have any intentions of violating the statutes. I worked hard to be elected to the office of Sheriff and do not intend to lose it because of violating the law. I took the oath of office to protect and serve the citizens of McLean County and believe that positive steps have been made in the right direction. I assure you there will not be any of these types of transactions in the future.*

MCLEAN COUNTY  
FRANK COX, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2004  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response:*

*Okay.*

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties

*This condition was not corrected and is repeated in the current year.*



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry B. Whitaker, McLean County Judge/Executive  
Honorable Frank Cox, McLean County Sheriff  
Members of the McLean County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the McLean County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated July 12, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McLean County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McLean County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and is described in the accompanying comments and recommendations.

- The McLean County Sheriff Should Not Make Private Purchases Through His Office

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
July 12, 2005

